

Contents lists available at [ScienceDirect](http://www.sciencedirect.com)

## Journal of Comparative Economics

journal homepage: [www.elsevier.com/locate/jce](http://www.elsevier.com/locate/jce)

# How does the entry of large discount stores increase retail employment? Evidence from Korea <sup>☆</sup>

Janghee Cho, Hyunbae Chun\*, Yoonsoo Lee

Department of Economics, Sogang University, Seoul 121-742, Korea

## ARTICLE INFO

### Article history:

Received 26 February 2014

Revised 17 April 2015

Available online xxx

### JEL Classification:

L81

J21

R12

### Keywords:

Large discount stores

Entry

Local employment

Retail trade

## ABSTRACT

**Cho, Janghee, Chun, Hyunbae, and Lee, Yoonsoo**—How does the entry of large discount stores increase retail employment? Evidence from Korea

The Korean retail sector has undergone significant structural changes in conjunction with the rapid expansion of big-box stores since the mid-1990s. Using county-level data from Korea in 1997–2010, we examine the effects of the entry of large discount stores on local retail employment. Based on a differences-in-differences approach, our analysis shows that the entry of a large discount store leads to an increase of approximately 200 retail jobs in the county. Two thirds of this gain is attributable to the entry of the large store itself, and the other third is a result of the expansion of other retail sectors. In particular, we find that the entry of a large discount store increases employment in non-general merchandise sectors, such as bakeries, clothing stores, and electronics stores. Our finding suggests that the opening of a large discount store may have a spillover effect on the local retail sector, thereby leading to an overall increase in county employment. Such a finding of positive employment effects is in sharp contrast to previous findings on the employment effect of large retail chains, based primarily on the expansion of Wal-Mart in the US. While Wal-Mart competes with incumbent chain stores, large discount stores—the first nationwide large-scale chains introduced in Korea—may play the role of anchor stores. By providing modern shopping infrastructure and attracting new small stores into neighborhoods, these large discount stores have transformed local retail sectors from traditional shopping environments. *Journal of Comparative Economics* 000 (2015) 1–16. Department of Economics, Sogang University, Seoul 121-742, Korea.

© 2015 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

## 1. Introduction

The diffusion of big-box stores operated by national or multinational companies has dramatically changed the global retail industry over previous decades. Because these large discount stores provide a wide range of products at relatively low prices, they have rapidly gained popularity and played an increasing role in most developed, as well as developing, economies. Researchers show that the growth of big-box stores has contributed to increases in consumer welfare

<sup>☆</sup> We thank Emek Basker, Minsoo Park, Kathryn Shaw, and participants at the 2013 Comparative Analysis of Enterprise Data (CAED) Conference in Atlanta, the International Conference on Serviceology in Tokyo, and the Korean Academic Society of Industrial Organization Conference for their helpful comments. We are also most grateful to the editor, Daniel Berkowitz, and an anonymous referee for their particularly helpful comments.

\* Corresponding author: Fax: +82 2 704 8599.

E-mail addresses: [cjh0403@sogang.ac.kr](mailto:cjh0403@sogang.ac.kr) (J. Cho), [hchun@sogang.ac.kr](mailto:hchun@sogang.ac.kr) (H. Chun), [ylee@sogang.ac.kr](mailto:ylee@sogang.ac.kr) (Y. Lee).

<http://dx.doi.org/10.1016/j.jce.2015.04.004>

0147-5967/© 2015 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

Please cite this article as: J. Cho et al., How does the entry of large discount stores increase retail employment? Evidence from Korea, *Journal of Comparative Economics* (2015), <http://dx.doi.org/10.1016/j.jce.2015.04.004>

(Hausman and Leibtag, 2007), productivity gains in the retail sector (Foster et al., 2006), and product upgrading among upstream manufacturers (Iacovone et al., 2011). However, there has been concern that the expansion of big-box stores does not lead to employment growth in the retail industry. In particular, these large discount stores have been criticized for driving out small family-owned retail stores and destroying traditional retail districts.

The impact of large discount stores on local employment dynamics has been a very controversial issue among researchers and policymakers around the world.<sup>1</sup> Recently, a growing number of studies have examined whether large discount stores, represented by Wal-Mart, create or destroy jobs. So far, most studies have focused on the effects of Wal-Mart stores on local retail employment in the US (Basker, 2005; Neumark et al., 2008), but these studies have not yet reached a consensus on the employment effect of Wal-Mart. Moreover, most previous studies have focused on net employment change at the location level (e.g., county level). Such analysis of net change in the location level of employment may mask potentially important reallocations among various types of retailers.

This study provides new evidence of the impact of large discount stores on local retail employment in Korea from 1997 to 2010. We address the shortcomings of previous studies and focus on the extent to which employment effects of the entry of large discount stores vary across different industries and establishments of different sizes. In order to unveil the underlying mechanism of employment changes in local retail employment, we utilize establishment-level data from the *Census on Establishments* and construct a dataset on county-level retail employment by detailed industry, establishment size, and both industry and size. We examine the role of substitutability and complementarity,<sup>2</sup> along with size, in explaining the effect of the entry by a large discount store on local employment.

The entry of a large discount store entails structural change in the local retail industry. An increase in price competition may lead not only to restructuring *within* an existing store,<sup>3</sup> but also to change in the composition of retailers in the industry, thereby driving unsuccessful stores out of the market. The impact of such changes varies across industries within the retail sector, depending on the products they sell and the size of the stores. For example, the effect of the entry of large discount stores may vary across groups of different sizes (e.g., small mom-and-pop stores versus medium-sized supermarkets) and industries (e.g., general merchandise stores (GMS), such as supermarkets, versus specialized shops, such as bakeries and clothing stores). Understanding the process of such structural change is crucial in analyzing the effect of large discount stores on employment changes in the retail industry. Our county-level dataset containing both establishment size and industry information enables us to analyze the adjustment and reallocation mechanisms in local retail employment after the entry of large discount stores. Our dataset is sufficiently rich to explore which types of stores are more vulnerable to the entry of large discount stores.

Using differences-in-differences (DID) estimation, we find that the entry of large discount stores increases retail employment in the affected county. We find that two thirds of the employment gain is attributable to the entry of the large store itself. This employment gain comes at the cost of employment loss in medium-sized general merchandise stores, such as supermarkets. There is mixed evidence among studies that utilize establishment-level micro data regarding whether the entry of large discount stores has a negative impact on small retailers. Haltiwanger et al. (2010) find that the entry of big-box stores has a substantial, negative impact on small chains and local mom-and-pop stores, particularly stores in the same sector and immediate area. In contrast, Ellickson and Grieco (2013) find that Wal-Mart's entry into groceries left small stores essentially unaffected. Our finding that medium-sized supermarkets are negatively affected is consistent with their findings that the impact of entry by large discount stores is largest among stores that compete directly with large discount stores, that is, medium-sized supermarkets in the case of Korea. On the other hand, the negligible effect on small stores suggests that small stores in the GMS sector may have been insulated from the entry of large discount stores thanks to the closing of medium-sized supermarkets.<sup>4</sup> In addition, while small, traditional mom-and-pop stores in the immediate area were affected directly, such a negative effect could be dwarfed by openings of new convenience stores. By operating for longer hours than large discount stores, these convenience stores provide easier access to customers in the neighborhood who stop by for a few daily items, such as drinks, snacks, and cigarettes. These services by small stores are complementary to those offered by large discount stores and enable the small stores to survive in the changing environment.

Furthermore, we find that employment in small specialized stores (i.e., non-GMS) increases in the county in which a large discount store has opened. This finding suggests that a large discount store may have a spillover effect on the local retail sector, thereby attracting small, specialized shops in the neighborhood. In a study examining the impact of discount store entry on local supermarkets, Zhu et al. (2011) show that the entry generates positive demand externalities for incumbents located in the same shopping plaza by attracting consumers. However, it is worth noting that the positive externalities created by the entry of large discount stores in Korea is not merely limited to an increase in traffic.<sup>5</sup> Large discount stores provide convenient, modern

<sup>1</sup> The studies include Jia (2008) and Sobel and Dean (2008) for the US, Rivero and Vergara (2008) for Chile, Igami (2011) for Japan, and Schivardi and Viviano (2011) for Italy.

<sup>2</sup> For example, Zhu et al. (2011) provide a theoretical model showing the trade-off between the business stealing effect and positive demand externality effect, depending on the degree of product differentiation between the entrants and incumbents.

<sup>3</sup> For example, competition from Wal-Mart increases the incumbents' product quality through better inventory management (Matsa, 2011).

<sup>4</sup> This finding is consistent with Sadun (2014) in the sense that a large discount store may not directly compete with small stores. Sadun (2014) finds that small independent retailers are harmed by the introduction of entry barriers against large stores, as large retailers substitute large shops with smaller in-town formats that compete more directly with small incumbents.

<sup>5</sup> Pashigian and Gould (1998) find that well-known anchor stores draw customer traffic, indirectly increasing the sales of lesser-known stores in the malls. Gould et al. (2005) find that rental contracts are written to price positive externalities to other stores.

Download English Version:

<https://daneshyari.com/en/article/5092063>

Download Persian Version:

<https://daneshyari.com/article/5092063>

[Daneshyari.com](https://daneshyari.com)